



Office of City Auditor Memorandum

Date: September 8, 2004

To: Bryan Leuschen, South Customer Engineering Manager, Seattle City Light

From: Scottie Nix, Assistant City Auditor for Internal Controls *Scottie Nix*

Subject: Review of Seattle City Light South Customer Service Center Cash Handling Operations

Summary of Our Work: During the course of our audit work at Seattle City Light's (SCL) South Customer Service Center (SCSC), we worked with you and your staff to assess and improve the controls over the site's cash handling operations. We are pleased that you and your staff adopted the vast majority of the recommendations we discussed for increasing the level of control at the SCSC.

Please note that even though we still have red ratings in the report (i.e., issues that require SCL management to take action to achieve an acceptable level of risk), we believe that these risks will be adequately mitigated if SCL implements the recommendations we discussed.

We plan on following up on the implementation of our recommendations at the site within the next one to two years.

Background and Purpose: The City of Seattle operates many cash receiving locations, including SCL's SCSC. The SCL-SCSC accepts payments for Seattle Public Utilities (SPU) and SCL usage charges as well as other miscellaneous types of payments, including utility hookups and meter installations, and Metro and other transportation pass sales to City employees.

As part of its ongoing monitoring of City cash handling sites, our office conducted this audit to evaluate the effectiveness of internal controls for cash handling operations at SCL's SCSC. We conducted a visit to the site on October 21, 2003, and again on January 4, 2004. During the initial visit, we were accompanied by Washington State Office of State Auditor staff, and worked together to count the petty cash and change funds. On the second visit, our staff worked alone to observe the day's cash deposit activities and trace the deposit to the City Treasury and the SCL Cash Balancing Desk.

Scope: To conduct the audit, we asked the SCL-SCSC to complete our cash-handling questionnaires, which cover the following internal control objectives, for the site's petty cash and change funds:

- Physical safekeeping of cash and checks
- Segregation of duties
- Cash receipting
- Cash depositing
- Monitoring

We reviewed SCL's responses to our questionnaires, examined relevant cash handling documents, and observed cash handling operations at the SCL-SCSC.

We conducted this audit in accordance with the Standards for the Professional Practice of Internal Auditing.

Results: We determined that several of SCL-SCSC's cash handling policies, procedures and practices could be improved to provide increased control of the site's petty cash and change funds.

We identified the controls that should be improved as soon as possible and have provided specific recommendations on how they could be strengthened. In particular, during the audit, we identified an immediate need to improve the controls over receipts for manual and miscellaneous payments. Although SCL-SCSC management responded to the situation, we believe they should take further immediate steps to improve the controls over these types of receipts. In this report, we have provided recommendations to improve these controls and address this risk. We also found other items of lower risk, which could be improved or should be monitored by SCL officials.

Full details on our results are provided below.

Using the format of our cash-handling questionnaire, we assigned color-coded ratings to the SCL-SCSC's cash handling controls. The color rating codes are as follows:

- **Green Rating** = The Office of City Auditor (OCA) believes that Seattle City Light management has reduced risk to an acceptable level.
- **Yellow Rating** = OCA believes the risk could be further reduced or would benefit from additional monitoring by management.
- **Red Rating** = OCA believes that an acceptable level of risk has not been achieved. Management needs to address this risk and reduce it.

Below we have provided a separate series of ratings for first, the petty cash fund, and second, the change funds.

PETTY CASH FUNDS

PHYSICAL SAFEKEEPING OF CASH AND CHECKS	
Internal control objective question	OCA Rating
1. Are adequate physical facilities provided for safeguarding cash such as a safe or locking box?	Green
2. If you use a safe or locked box, are the safe combinations and keys restricted to a minimum number of employees?	Green
3. Do senior individuals maintain lists identifying who knows the safe combinations and has keys to locked boxes and areas? We learned that there is one key for the petty cash box, which is kept by the fund administrator.	Green
4. Are safes and cash storage areas locked at all times when unattended?	Yellow

<p>During our visit we noted that the petty cash was located in a locking bin attached to the wall above the fund administrator's desk; however, the bin was unlocked and its door was open.</p> <p>We recommend that the bin be locked at all times and its key kept in a secure location to keep it accessible only to authorized individuals.</p> <p><u>SCL Responds</u>: The fund administrator now ensures that the bin is locked at all times and keeps the key in a secure location.</p>	
<p>5. Are safe combinations and keys changed at the transfer or termination of key employees, such as fund custodians, or are they changed for other security reasons?</p>	Yellow
<p>The existing policies and procedures are silent on this subject.</p> <p>We recommend that they be modified to require changing of the safe combination and the turn in of the petty cash box keys upon the transfer or termination of key employees.</p> <p><u>SCL Responds</u>: We have not had any transfer or termination of key employees for many years, but will do as recommended at the time of the transfer or termination of key employees.</p>	
<p>6. Are only authorized individuals permitted access to cash handling areas?</p>	Green
<p>7. Has fraud, robbery or other type of incidents occurred in the petty cash fund?</p>	Green

SEGREGATION OF DUTIES	
Internal control objective question	OCA Rating
<p>8. Are all requests for reimbursement of petty cash memos and supporting documents reviewed by someone other than the person who issues the petty cash payments?</p>	Red

The fund administrator at SCL-SCSC forwards reimbursement request memos to the Key Tower SCL Accounts Payable group after performing a limited, procedural review of the documentation. For example, the fund administrator ensures that the request is for an amount under \$50 and is accompanied by an expense voucher 90-L form signed by the requesting employee's supervisor. It is the supervisor who bears the responsibility for determining whether the reimbursement request is for a legitimate purpose. The supervisor's review role is key given that SCL employs individuals from several unions that have different petty cash reimbursement rules. The supervisor should also review the request to ensure that it follows SCL's petty cash documentation procedures.

Our testing indicated that in some instances supervisors approved and the fund administrator made some payments that did not comply with SCL's petty cash reimbursement procedures.

We recommend that SCL management remind supervisors that they are responsible for reviewing petty cash reimbursement requests to ensure that they comply with SCL's petty cash fund general procedures. We also **recommend** that the SCL-SCSC cashiers ensure that any instances of non-compliance with petty cash procedures are identified, corrected or explained before a reimbursement request memo is sent to Key Tower SCL Accounts Payable.

SCL Responds: We feel it is the responsibility of the employee's supervisor to review the reimbursement request before rejecting or approving it.

9. Are bank statements reconciled on a monthly basis?	N/A
10. Is it prohibited to cash personal checks using petty cash funds?	Yellow
<p>This is not a written policy, but is a standard operating procedure.</p> <p>We recommend that this issue be addressed in SCL's written petty cash policy.</p> <p><u>SCL Responds:</u> Will do as recommended.</p>	

MONITORING	
Internal control objective question	OCA Rating
11. Are all overages and shortages reported to management?	Red
<p>SCL's petty cash policy requires that overages and shortages be included on the request for reimbursements, which are forwarded to the SCL Accounts Payable section in Key Tower. However, the SCL-SCSC program managers have no mechanism that allows them to know about cash overages or shortages or other unusual transactions before they are submitted to Key Tower. The current custodian has not been including overages and/or shortages in reimbursement requests.</p> <p>We recommend that the cashiers' supervisor review all petty cash reimbursement requests for over and short items before they are submitted to the SCL Accounts Payable section in Key Tower for reimbursement.</p> <p><u>SCL Responds:</u> Will do as recommended.</p>	
12. Are all pre-numbered documents that are voided accounted for?	Red

<p>Pre-numbered documents are not used with the current petty cash processing system; therefore, voided items are discarded without being accounted for. SCL currently uses the unnumbered SCL Expense voucher 90-L(5-00) as the documentation for petty cash disbursements. After the payment is made, the person who received the payment signs the voucher and the voucher is included with the paperwork that is turned in for the reimbursement request.</p> <p>We recommend that once an SCL Expense voucher 90-L(5-00) has been reimbursed that the fund administrator assign a number to the form and track it to ensure that she has all the proper paperwork when it is time to submit for reimbursement.</p> <p><u>SCL Responds:</u> We implemented the recommendation in May 2004.</p>	
13. Does an independent employee periodically count cash funds on a surprise basis?	Yellow
<p>SCL officials stated that SCL's unwritten standard operating procedures assign SCL General Accounting the duty of periodically conducting surprise counts of all cash funds; however, SCL General Accounting officials confirmed that they have not recently performed any cash counts of the site's petty cash funds.</p> <p>We recommend that SCL conduct surprise cash counts on a regular basis and document this requirement in its policies and procedures.</p> <p><u>SCL Responds:</u> We agree that surprise cash counts should be conducted regularly. Surprise cash counts are being performed every other year. We will perform surprise cash counts in the summer of 2004 for petty cash and change funds.</p>	
14. Are there written departmental petty cash handling policies and procedures?	Yellow
<p>We obtained written policies and procedures from the Accounts Payable purchasing manager and the SCL-SCSC Cashier Supervisor. We reviewed these policies for completeness.</p> <p>We recommend that they be revised to include directions on handling exceptions, and that once the vouchers are paid the SCSC Petty Cash Administrator should number them for tracking purposes.</p> <p><u>SCL Responds:</u> Will do as recommended.</p>	
15. Is the fund custodian required to take annual vacations, and that person's responsibilities handled by someone else during their absence?	Green
PETTY CASH OPERATIONS	
Internal control objective question	OCA Rating
16. Do all petty cash reimbursement vouchers require and include an original receipt?	Yellow

<p>An original receipt must accompany most payment request vouchers; however, there are exceptions outlined in SCL policy. For example, there are exceptions granted for mileage reimbursements and parking up to \$10 at an unattended lot or meter. It is important when exceptions to policy are made that management monitor such requests. For example we found that between August and October 2003, an employee had turned in reimbursement requests for 385 private vehicle use miles and yet when this mileage was compared to the odometer readings submitted with the reimbursement vouchers, the vehicle had been used for 445 miles total during this time period. Meaning the vehicle was used for 60 miles of personnel use during this three month time period, which is unusually low mileage.</p> <p>We recommend that the petty cash data be analyzed and monitored, and that this duty be assigned to specific SCL-SCSC personnel.</p> <p><u>SCL Responds:</u> The unit supervisors of the employees who request reimbursements will be reminded from the Fund Custodian to track and monitor the usage of the petty cash for reimbursements. We will send a memo reminding them it is their responsibility to review the petty cash transactions they submit for reimbursement for patterns of abuse.</p>	
<p>17. Are reimbursements made about once a month? If not, how frequently do you request a reimbursement of petty cash?</p>	<p>Red</p>
<p>SCL's written guidelines state that requests for petty cash fund reimbursement should be made every other month or when half of the site's petty cash funds have been used. During our cash count, we identified 78 reimbursement requests that needed to be turned in to the SCL Accounts Payable Key Tower staff. This is too high a number of transactions for the fund administrator to be able to process in a timely manner, and this may have been one of the reasons for the number of items refused for reimbursement by Key Tower SCL Accounts Payable.</p> <p>We recommend that petty cash fund replenishments occur when the number of transactions hits 25, so that the fund administrator has a more manageable number of requests to process.</p> <p><u>SCL Responds:</u> Will do as recommended.</p>	
<p>18. Do replenishment checks show the custodian and the City of Seattle as payees?</p>	<p>Green</p>
<p>19. Does someone other than the fund custodian reconcile the petty cash account bank statement?</p>	<p>N/A</p>
<p>20. Is the fund size the right amount to meet your normal business needs?</p>	<p>Yellow</p>
<p>We will be able to determine this once replenishments are made more frequently.</p> <p>We recommend that SCL-SCSC management determine the proper fund size for this site. They can do this by monitoring the number of transactions made before a replenishment request, the dollar amount of the transactions and the frequency of the request for reimbursements.</p> <p><u>SCL Responds:</u> We feel the current fund size of \$3,000 is adequate.</p>	
<p>21 Is it prohibited to provide cash advances from petty cash funds?</p>	<p>Green</p>

22. Are all checks received for petty cash funds promptly presented to a bank for payment?	Yellow
<p>Ideally, the fund administrator would take the replenishment check to the bank and obtain cash for it. However, at the SCL-SCSC it is customary for the fund administrator to have a security guard bring the check to the bank, with a note telling bank officials that they can give the money to the guard. The security guard then returns to the site with the funds. This practice, although not ideal, will be better documented once the log mentioned in number 36 in the change fund section of this report is in place to track the security guard's bank activity.</p> <p>We recommend that the bank deposit worksheet recommended in number nine in the change fund section of this report be used to track the petty cash reimbursements sent to the bank.</p> <p><u>SCL Responds:</u> This recommendation was implemented in April 2004.</p>	
23. Are disbursements from petty cash fund supported by receipts?	Yellow
<p>We reviewed the site's compliance with existing policies and procedures and found that not all reimbursements were in compliance. For example, one voucher was paid without a receipt and was later denied by the SCL Accounts Payable unit in Key Tower. When the reimbursement request was denied, the issue was not researched and corrected immediately, and a single reimbursement request to handle the issue was not generated.</p> <p>We recommend that reimbursements made at the site comply with SCL petty cash policies, and that none be paid without a receipt unless they are for mileage or parking for up to \$10 in an unattended lot or meter. A site supervisor should monitor compliance with the petty cash policies and procedures. When a reimbursement request is denied, the request should be researched and corrected immediately.</p> <p><u>SCL Responds:</u> The petty cash fund administrator now ensures that receipts accompany all reimbursement requests. We will reiterate this when we send out a memo to all supervisors reminding them of their petty cash responsibilities and the need for receipts for most reimbursement requests.</p>	
24. Are petty cash funds counted and reconciled monthly by custodians? If not, how often?	Yellow
<p>The petty cash administrator said that she reconciles the fund when she turns in a request for petty cash reimbursement; however, this occurs less frequently than on a monthly basis.</p> <p>We recommend that reimbursements be turned in more frequently, as stated in the recommendation for number 17, and that the fund administrator provide the fund reconciliation worksheet along with the other supporting paperwork to the cashier supervisor for approval.</p> <p><u>SCL Responds:</u> In the future, the petty cash administrator will turn in reimbursements every 25 transactions or monthly, whichever comes first.</p>	
25. Are petty cash funds properly entered and reflected in the City's monthly accounting cash report and/or the account for the respective fund in the general accounting records?	Green
26. Are employees adequately trained in the proper procedures for the handling of the petty cash funds?	Green

27. Are written policies and procedures for petty cash operations being followed at the site?	Yellow
<p>We reviewed compliance with existing policies and procedures and found that not all reimbursements were in compliance, for example:</p> <ul style="list-style-type: none">• Some requests were over 90 days old.• One voucher was paid without a receipt• There appears to be no system for monitoring and reporting unusual transactions, for example, unusual repeated parking for \$10 or unusual mileage requests.• One voucher submitted was for \$50. To be eligible for petty cash, the transaction must be under \$50. <p>We recommend that reimbursements made at the site comply with SCL petty cash policies, and that none be processed that are over 90 days old or paid without an original receipt unless they are for mileage or parking up to \$10 in an unattended lot or meter. A site supervisor should monitor and research unusual activity, such as repeated parking for \$10 and unusual mileage requests. Vouchers should not be reimbursed or turned in for \$50 or above. When a reimbursement request is denied, it should be researched and corrected immediately.</p> <p><u>SCL Responds:</u> We believe the supervisor who approves the petty cash transaction is the person accountable for the expenditure and for monitoring their programs' petty cash activity for unusual activity, such as repeated parking for \$10 and unusual mileage requests. We plan to send a memo to SCL supervisors and managers reminding them of their responsibility to ensure employee expenditures and expense reimbursement requests are in compliance with the applicable rules and policies before the reimbursement request is approved and forwarded to the petty cash administrator for payment. The memo will also ask them to conduct reviews of transactions on a regular basis to identify any unusual activity.</p> <p>Compliance with petty cash policies will be considered for the surprise cash counts to be performed during the summer of 2004.</p> <p>OCA comments: We believe SCL should review compliance with petty cash policies during the surprise cash counts.</p>	

CHANGE FUNDS

PHYSICAL SAFEKEEPING OF CASH AND CHECKS	
Internal control objective question	OCA Rating
28. Are adequate physical facilities provided for safeguarding cash?	Yellow
<p>At the site, there is a safe with a combination lock. We reviewed the contents of the safe and determined that the safe contained extraneous items. For example, the safe contained an empty Seafirst bank bag, but the City currently uses Wells Fargo Bank. It also contained an old key bag envelope, two change fund bags marked drawer A & B each containing \$12.50 in rolled coins, safe instructions, a Metro pass envelope being held for an employee who was on vacation, and an empty petty cash lock box which was used for the old petty cash fund.</p> <p>We recommend that site management review the safe's contents to ensure that only essential items are stored in the safe.</p> <p>During our cash count, we observed that one cash drawer was short by \$40. The cashier responsible for that drawer stated she had given the money to a security employee to take to the bank to get change; however, at the time of our cash count, the drawer contained 5 five dollar bills, 38 one dollar bills, and a coin bag containing \$12.50 in rolled coins. The other drawer contained 39 ones, 9 fives and a bag with \$12.50 in rolled coins. We did not understand why there was a perceived immediate need for obtaining more change. Also, we noted that there was no receipt or paperwork indicating that the security guard had actually taken the \$40 to get change. This places the cashier and the security guard in an awkward situation. Also, the bags containing coins labeled drawer A & B were located in the safe and not with the drawer to which they were assigned. The funds belonging to a cash drawer should be located in the drawer.</p> <p>We recommend that SCL-SCSC management obtain a higher degree of control by creating a separate change fund for storage in the safe with access limited to the cashier supervisor. This change fund would be the responsibility of the cashier supervisor. The purpose of this separate fund would be to allow the cashiers to go to the cashier supervisor to obtain that change that they need to operate.</p> <p>In our discussions with SCL South Customer Service Center management, they said that they would try to have larger cash drawers installed so that the change bags could be stored with the cashier drawers. We believe this would be an improvement over the current situation. Additionally, they agreed to document the requests for change on the bank deposit tracking worksheet proposed in number nine. This would help ensure that the custody of the funds would be documented at all times, and would reduce risk to a lower level.</p> <p><u>SCL Responds:</u> We have reviewed the safe's contents and have removed the separate change bags. All of the cashier's change funds are now kept in each cashier's specific cash drawer. We now have a bank deposit tracking worksheet with all the recommended information recorded on it.</p> <p>OCA comments: During our work at the SCL-SCSC, we noted that SCL management responded quickly to this recommendation.</p>	

29. Are the safe combinations and keys for locking boxes restricted to a minimum number of employees? Access to the cashiering area and the office safe and locking boxes are restricted to SCL-SCSC employees.	Green
30. Do senior individuals maintain lists identifying who knows the safe combinations and has keys to locked boxes and areas?	Green
31. Are safes and cash storage areas locked at all times when unattended?	Green
32. Does the cashier have access to a security alarm or buzzer that would alert management or security personnel of a robbery or other type of threatening activities?	Yellow
<p>Additional security over transaction processing is provided by the videotape security system. We noted that the system had not been converted to Pacific Standard Time.</p> <p>We recommend that the when time changes occur, the system should be converted to the correct time and monitored regularly to ensure that it remains correct.</p> <p><u>SCL Responds:</u> To address this recommendation, we will coordinate with the SCL building security unit.</p>	
33. Has the Seattle Police Department or professional security experts evaluated your premises and procedures?	Green
34. Has fraud, robbery or other type of incidents occurred in the cash handling area?	Red

In late 2003 an incident occurred that revealed problems with the site's manual receipt system for miscellaneous payments. A customer claimed that his Combined Utilities (i.e., SPU) account had not received a \$573 credit for a cash payment that a family member made at the site. As proof of payment, the customer provided an un-validated, manually produced receipt. The site's cashiers create manual receipts for in-person customer payments when the automated cash receipting system is inoperable due to a power outage. SPU management officials concluded that they had no choice but to credit the customer's account for the amount in question.

We observed that supplies of blank receipts for three types of miscellaneous payments were kept at the cashier counter within reach of customers. This increased the risk that a customer could have taken a blank receipt, filled it in, and then presented it as proof of payment. Furthermore, although the blank receipts had serial numbers, they were not tracked in sequential order or stored in a secure location. Therefore, we were unable to determine whether the receipt was legitimate because of inadequate controls over the manual receipts issued for direct customer payments.

We recommend that SCL and SPU work together to create a new payment receipt process and form, as well as written policies and procedures, to cover times of power outages and other miscellaneous or unusual payment situations. All blank receipts stored at the site should be numbered and accounted for on a regular basis via an inventory system. They should be locked up with access restricted to the cashiers on duty.

Additionally, the cashiers work area needs to be cleared of clutter and neatly organized to increase the probability that if something is missing, SCL-SCSC personnel will notice it within a reasonable amount of time. SCL-SCSC management may also want to consider keeping videotapes of activity at the cashiers counter for a longer period than they do currently.

SCL Responds: Blank receipts are now kept in a drawer so that only the cashier will be able to take them out and use them when needed. Also, we now keep a record of sequential numbered receipts that were manually produced during the outage of our automated cash receipting system.

35. Have all the cashiers completed the Department of Executive Administration's cash handling training?

Green

SCL Comments: The Treasury Division of the Department of Executive Administration has in the past provided cash handling training for the City's petty cash administrators and others in the City who handle cash on a daily basis. To the best of our knowledge, this training has not been offered to SCL employees during the past five years. We would like to see a number of these classes offered by the Treasury Division in the near future so that all of the current SCL petty cash administrators and custodians can take advantage of this training.

Auditor Comments: DEA officials stated that cash handling training will be given to selected SCL employees in August 2004 and is available upon request for any City Department.

SEGREGATION OF DUTIES

Internal control objective question	OCA Rating
36. Are all bank statements, deposit slips, etc. sent to someone other than the person making the deposit?	Yellow
<p>The bank (Wells Fargo) sends daily bank statements electronically to DEA's Treasury unit. The bank also returns bank-validated deposit slips to the SCL-SCSC cashiers, which are filed with the deposit batch information within the SCL-SCSC cashiering section.</p> <p>The current SCL-SCSC deposit pickup log is a stenographer's notebook pad that the security guard signs when he or she picks up deposits for delivery to the bank. The notebook is used to record the date and time of the pick up and for the security guard to sign to indicate that he or she has received the deposit. While this procedure provides documentation that the deposit was picked up on a certain day and time, it does not document the exact composition (i.e., amount of checks, cash, credit card or miscellaneous types of funds received) of the deposit. This increases the risk that a deposit could be misplaced or lost and never deposited in the bank with no documentation available to determine the amount of the deposit that was missing, or whether the guard took it to the bank, and then the bank made an error processing the deposit. Additionally, there was no documentation at the site indicating supervisory review of the stenographer's notebook that is currently used as the deposit pickup log.</p> <p>We recommend that SCL-SCSC develop a form called the "Bank Deposit Tracking Worksheet". The worksheet should contain the following elements:</p> <p>Deposit Preparation and Approval</p> <ul style="list-style-type: none"> • The Cashier Supervisor should type the Mylar bank deposit bag numbers on the form before the bags are delivered to the cashiering desk. • Date • Closing cashier signature • Amount • Supervisor Signature • Date <p>Deposit Pickup Information</p> <ul style="list-style-type: none"> • Date • Time • By whom, security guard's initials <p>Banking</p> <ul style="list-style-type: none"> • Date validated deposit slip received • Initials of person placing the validated deposit slip in the office files verifying that it matches the amount on the face of the deposit slip. <p>The Cashier Supervisor should control the Bank Deposit Tracking Worksheet form.</p> <p><u>SCL Responds:</u> SCL-SCSC implemented the recommendation in April 2004.</p>	
37. Are bank statements reconciled on a monthly basis?	Green

38. Are the individuals responsible for the cash receiving function prohibited from signing checks or reconciling the bank statement?	Green
39. Are there individuals whose official duties make them responsible for the oversight of cash deposits, transmittal of deposits to couriers for delivery to the City Treasury, and receipt of information from Treasury about prior deposits?	Red
<p>The site's cashiers process the payments received via the drop box and mail throughout the day to include them into the cashiers' daily deposits. There is no list made and no control process that would provide assurance that all payments received through the drop box and mail are deposited intact. The drop box contains mostly payments of regular billing statements that are entered into the SCL accounts receivable system. The bulk of payments received by mail are for installation charges for new services that are created at the service center. The backup cashiers' duties sometimes include the billing and creation of the new service accounts that may contain installation charges.</p> <p>We recommend that SCL-SCSC create a process to track the mail payments received through the mail and that these transactions be receipted by the main cashier.</p> <p><u>SCL Responds:</u> SCL-SCSC created a logbook for the mail in payments and implemented this recommendation in May 2004.</p>	
40. Does a person who does not prepare bank deposits and does not have access to accounts receivable open the mail and process drop box payments?	Red
<p>The site cashiers prepare bank deposits, have access to miscellaneous accounts receivable, open the mail and process drop box payments. This does not provide adequate segregation of duties. The cashiers process the payment drop box and mail in payments throughout the day. These payments are incorporated into their daily deposits. There is no list made and no control process that provides assurance that all payments received through the lock box and mail are deposited intact and in a timely manner.</p> <p>We recommend that SCL-SCSC have two people open the mail, retrieve drop box payments and log the payments received before the transactions are passed to the cashiers for processing. We also recommend that a tracking system be developed to reconcile the miscellaneous charges to the manual records generated.</p> <p><u>SCL Responds:</u> Transactions of mail-in payments need to be done early in the morning because many of those payments may resolve customers' account problems, and the service may be scheduled to be disconnected that day. SCL-SCSC officials stated that they do not have adequate resources for two people to handle receiving and processing these mail-in payments early in the morning. They, however, have created a logbook for the mail-in payments as a tracking system.</p>	
41. Are employees who collect and deposit cash prevented from recording cash receipts and preparing general ledger entries?	Green

CASH RECEIPTING	
Internal control objective question	OCA Rating

42. Are all receipts controlled by a SCL batch number?	Red
<p>The CCSS system is a batch-based system. The current batch number assignment log is a stenographer's notebook that is created by the site's cashiers. This log contains entries that have been changed with white out, crossed out, and are out of order, e.g., batch number 777 2097 was used before number 777 2079.</p> <p>We recommend that SCL-SCSC create a form that the site's cashiering supervisor uses to assign batch numbers. It may be possible to have this assignment occur at the time the cashiering supervisor creates the log recommended in number nine.</p> <p><u>SCL Responds:</u> The numbering of the batch is in sequence and documented in a logbook so we feel the site's cashiers can assign the numbers. SCL-SCSC will review the numbers generated and assigned by the cashiers on a regular basis and document their review by initialing and dating the logbook.</p>	
43. Is the receipting process capable of generating reports or records with summary totals and amounts to reconcile to?	Green
44. Do cashiers record all transactions immediately upon receiving money?	Red
<p>Payments received through the mail and drop box are kept on the counter in a small mail sorter next to the cashiers' computer until the cashiers can post them to the cash receipting system.</p> <p>We recommend that cashiers record all cash at the time of receipt, and that they keep unrecorded items locked up until they are recorded.</p> <p><u>SCL Responds:</u> SCL-SCSC implemented in May 2004.</p>	
45. Do the cashiers provide cash register receipts to all customers?	Red
<p>Cashiers provide receipts to customers who come to the site. There is no receipt provided to customers for mail in payments for miscellaneous charges or drop box payment of SCL bills.</p> <p>We recommend the development of additional control procedures as noted in number 40 to reduce the risk related to the mail in and drop box payments.</p> <p><u>SCL Responds:</u> It is not the City's practice to send receipts to customers who mail in their payments. For the miscellaneous payments, the Electric Service Representative who is assigned to the project receives a copy of the payment receipt, and he/she mails the receipt to the customer.</p>	
46. Are signs placed at the cashier's area advising the public that a receipt is required?	Red

<p>There are no signs in the cashier's area advising the public that a receipt is required.</p> <p>We recommend that signs be placed in a highly visible location stating that the customer should receive a receipt, something like "Please Remember to Obtain a Receipt". The CCSS system should be set to print a receipt for every transaction.</p> <p><u>SCL Responds</u>: The SCL-SCSC cashiers verbally advise the public that they need to give receipts, but some customers say they don't want the receipts and the cashiers feel they cannot force them to take it.</p> <p><u>OCA comment</u>: We believe a sign should be posted.</p>	
47. Is only one cashier responsible for each cash drawer at any given time?	Green
48. Are employees required to get a supervisor's approval before voiding or correcting transactions?	Red
<p>Employees did not obtain documentation of supervisory approval when changes were made to the batch number assignment log or the deposit pick-up log.</p> <p>We recommend that approvals be required at the time any voids or corrections are made to any transactions at SCL-SCSC.</p> <p><u>SCL Responds</u>: The SCL-SCSC supervisor is not always available at the site, and that makes it difficult to comply with his recommendation. However, after further discussion with the City Auditor, SCL-SCSC has agreed to create a system so that the supervisor will conduct periodic reviews of the logs to search for voids, no sale transactions, and unusual trends and patterns.</p>	
49. Is the cashing of personal checks made payable to the City prohibited?	Red

Although the cashing of personal checks is prohibited, we noted that one cashier was holding a check for \$150. This check, which was dated five days before our cash count, was from a fellow City employee who left it in a drop box, and had a note attached to it saying that the employee was a cash-only customer and to hold the check until the employee came back the next day with the cash to pay their account.

We recommend that all checks either be prepared for bank deposit at the time they are accepted, or returned to the customer if they cannot be accepted. Additionally, **we recommend** that a supervisor be consulted when unusual transactions happen and that SCL management create written policies and procedures related to this type of transaction that identify the proper steps for the cashier to take when placed in this awkward position.

SCL Responds: This incident was an unusual case that involved a SCL employee. Normally, all checks are deposited on the same day that they are received or are immediately returned via mail to the customer if we cannot accept payment by check. SCL-SCSC has agreed to add to its written policies and procedures that the cashier is supposed to return checks that cannot be accepted as payment to all customers via mail immediately.

OCA comment: We believe that all cashiers who use CCSS need written policies and procedures to specify how they should handle unusual transactions such as cash-only customers who try to pay by check.

50. Are checks restrictively endorsed “City of Seattle, For Deposit Only” immediately upon receipt?

Yellow

Those payments received through the mail are not validated/stamped until they are posted to the CCSS system.

We learned that miscellaneous payments received by the cashiers that are missing a service order number are taken to service desk personnel who seek to identify the service order number. During this time the funds are not entered into the CCSS system nor has the check been restrictively endorsed. This process can take several hours to several days.

We recommend that all checks be restrictively endorsed in a timelier manner. For those payments received that are missing service order numbers, **we recommend** that the funds be stored in the safe until the number is identified.

SCL Responds: Will do as recommended.

51. Does the CCSS system RAPS report summarize the number of voids, no sales, refunds and other miscellaneous transactions?

Yellow

<p>The CCSS system generates daily reports for SCL-SCSC supervisors that show which transactions were for payment or no sales. SCL-SCSC officials stated that they review these daily reports. SCL-SCSC management also receives a monthly report that summarizes the miscellaneous transactions that occur at the SCL-SCSC.</p> <p>We recommend that SCL-SCSC management obtain CCSS reports that provide monthly summary totals indicating the number of no sales performed by each cashier.</p> <p>We also recommend that during the daily review of transactions for submittal to the SCL cash balancing desk, SCL-SCSC supervisors and manager monitor and follow up, when necessary, the number of void and no sale transactions to mitigate the risk posed by these transaction types.</p> <p><u>SCL Responds:</u> Will do as recommended.</p>	
52. Are cash receipts reconciled with the CCSS system RAPS Remittance Balancing Report on a daily basis?	Green
53. Are the CCSS transactions numbered sequentially, dated and time stamped?	Yellow
<p>CCSS information is dated and time stamped, but batch numbers are assigned manually. See number 42.</p> <p><u>SCL Responds:</u> SCL-SCSC created a manual batch number log in April 2004.</p>	
54. Are cash receipt refunds made by check/warrant to the individual making the deposit?	Green
55. Do you accept credit cards at the cash-handling site?	Yellow
<p>Credit card receipts are not encrypted. We observed that credit card slips were stored in open boxes under the cashiers counter.</p> <p>We recommend that credit card transactions be encrypted, and that a policy and procedures for storage or destruction of the credit card forms be devised. Another option would be to use a marking pen to blacken the credit card information on the records that are retained by SCL-SCSC.</p> <p>We also recommend that SCL-SCSC management contact the City Records Manager for guidance on the storage and destruction of credit card records.</p> <p><u>SCL Responds:</u> SCL-SCSC contacted the bank and was told that credit card transactions are not encrypted because of the language of the contract between the City and the bank. SCL-SCSC agreed to comply with the recommendation for the storage and destruction of credit card records.</p> <p>OCA comments: Thank you for contacting the bank and locking up the credit card information stored in the SCL-SCSC cashiers' office. We will pursue the encryption issue with DEA's Treasury unit.</p>	

CASH DEPOSITING

Internal control objective question	OCA Rating
56. Are cash receipts recorded promptly and deposited intact within 48 hours, as required by City policy?	Yellow
<p>We learned that miscellaneous payments received by the cashiers that are missing a service order number are taken to service desk personnel who seek to identify the service order number. During this time the funds are not entered into the CCSS system nor has the check been restrictively endorsed. This process can take several hours to several days.</p> <p>We recommend that all checks be restrictively endorsed in a timelier manner. For those payments received that are missing service order numbers, we recommend that the funds be stored in the safe until the number is identified.</p> <p><u>SCL Responds:</u> Will do as recommended.</p>	
57. Do you prepare deposit slips indicating the amount of funds deposited?	Green
58. Do deposit slips show the amount of each check deposited?	Yellow
<p>On the deposit slip, the cashier lists the checks in total and attaches a corresponding adding machine tape to the slip that is sent to the bank. There is no detailed list of the checks maintained at the site. The effect is that SCL-SCSC management at the site is unable to reconcile the list of checks to the CCSS batch listing report.</p> <p>We recommend a second check tape be prepared and kept at the site with the deposit paperwork.</p> <p><u>SCL Responds:</u> The SCL-SCSC cashiers have 10-key calculator tapes for checks and the copies of these tapes are kept in the file.</p> <p>OCA comment: We were able to verify that the check lists are now included in the packet saved on site and are kept in a locking desk file drawer. We want to acknowledge the prompt and careful attention SCL-SCSC paid to this issue.</p>	
59. Is the make-up of the deposit (amounts of coin, cash denomination or check) clearly documented?	Green
60. Are duplicate deposit slips prepared (one sent to the bank and one retained by the organization)?	Green
61. Do you use tamper-proof deposit bags for deposit?	Red
<p>We noted that tamper proof bags are used for the deposits. However, the same bag is used repeatedly and it is not sealed. Furthermore, the number of the bag is not tracked and listed on the deposit transmittal log.</p> <p>We recommend that the cashiers use a new bag for each drawer and for each day's deposit. The bags need to be sealed when they are ready for security to pick them up. Also, the tear off strip needs to be retained with the deposit pick up log.</p> <p><u>SCL Responds:</u> SCL-SCSC now uses a different bag for each deposit.</p>	

62. Does a person other than the cashier verify the deposit against the cash receipt?	Yellow
<p>There is a review by a supervisor or manager; however, during our transaction testing, we identified two small errors in the daily collection reports that were not identified during the daily review.</p> <p>We recommend that SCL management determine which SCL unit should be responsible for verifying the deposits against the cash receipts. The procedures for performing this verification should be documented.</p> <p><u>SCL Responds:</u> The SCL-SCSC supervisor verifies the deposit.</p>	

MONITORING	
Internal control objective question	OCA Rating
63. Are receipts accounted for and balanced to the CCSS system receipt records on a daily basis?	Green
64. Does management verify the cash and check amount on the deposit slips to the CCSS reports?	Yellow
<p>There is a review by a supervisor or manager; however, this review is of the daily collection report and does not include enough detail for a supervisor or manager to verify the cash and check amounts to CCSS system-generated records.</p> <p>We recommend that SCL-SCSC develop a process that allows supervisors or managers to verify the cash and check amount on the deposit slips to the CCSS system records.</p> <p><u>SCL Responds:</u> SCL-SCSC has implemented this recommendation.</p> <p>OCA Comments: We verified that SCL-SCSC implemented this recommendation.</p>	
65. Are all overages and shortages reported to management?	Green
66. Are unusual variations in revenue investigated by management?	Green
67. Does management investigate all substantial variations from norms such as voids, no sales, refunds, errors, etc.?	Red

<p>There are currently very few voids, and no sales, refunds, errors, etc. at the site. Therefore, there is no documented, formal process to have the cashiers document these variations, and for management to review them.</p> <p>We recommend that SCL-SCSC develop written policies and procedures related to voids, no sales, refunds and errors.</p> <p><u>SCL Responds:</u> When a transaction is voided, there is no receipt produced but the detailed daily reports displays and creates a transaction number for all voids and no sale transactions. These daily reports, called the RAPS Cash Remittance Report, are attached to the paperwork forwarded for supervisory approval each day. SCL-SCSC has agreed to include a review of these types of transactions in its written procedure for supervisory review of the paperwork in the future.</p>	
<p>68. Are all original voided or canceled receipts retained and accounted for in the records?</p>	<p>Red</p>
<p>There are currently very few voided or cancelled receipts at the site. Therefore, there is no documented, formal process to have the cashiers document these variations, and for management to review them.</p> <p>We recommend that SCL-SCSC develop written policies and procedures related to pre-numbered documents that are voided.</p> <p><u>SCL Responds:</u> SCL-SCSC will develop written procedures for voided pre-numbered receipts.</p>	
<p>69. Are all pre-numbered documents that are voided accounted for?</p>	<p>Red</p>
<p>There are currently very few voids; therefore, there are no written, formal procedures for how the cashiers should document them and how management should review these transactions.</p> <p>We recommend that SCL-SCSC develop written policies and procedures related to pre-numbered documents that are voided.</p> <p><u>SCL Responds:</u> SCL-SCSC will develop written procedures for voided receipts.</p>	
<p>70. Does an independent employee periodically count cash funds on a surprise basis?</p>	<p>Yellow</p>
<p>SCL officials stated that SCL's unwritten standard operating procedures call for SCL General Accounting to periodically count all cash funds on a surprise basis; however, SCL General Accounting officials confirmed that the last count they performed was on August 22, 2002, when the change fund balance was reduced from \$460 to \$300.</p> <p>We recommend that SCL General Accounting conduct cash counts on a regular basis, and document this requirement in its policies and procedures.</p> <p><u>SCL Responds:</u> We agree that surprise cash counts should be conducted regularly. Surprise cash counts are being performed every other year. We will perform surprise cash counts in the summer of 2004 for petty cash and change funds.</p>	
<p>71. Does the cash handling area have written departmental cash handling policies and procedures?</p>	<p>Yellow</p>

<p>The written cash handling policies and procedures are not adequate.</p> <p>We recommend that SCL-SCSC revise and update the written policies and procedures for the cashiers.</p> <p><u>SCL Responds</u>: SCL-SCSC will update the written policies.</p>	
72. Do you perform criminal background checks on new cash handling employees?	Yellow
<p>SCL has not performed criminal background checks on cash-handling employees.</p> <p>We recommend that SCL management consider conducting background checks on all employees who handle the cash and mail payments.</p> <p><u>SCL Responds</u>: Will do as recommended for new employees.</p>	
73. Are criminal background checks made periodically after hire?	Yellow
<p>We recommend that SCL management consider spot checks on employees who handle the cash and mail payments after they are hired.</p> <p><u>SCL Responds</u>: Not considering doing this without approval from the union and SCL upper management.</p> <p>OCA Comment: We believe SCL should pursue obtaining this approval. In addition to the financial risk, this poses a public relations risk. If a City cash-handling employee committed fraudulent acts and the media learned that the City was not aware that this individual had a criminal record, the City could be portrayed as derelict in its duty.</p>	
74. Are all cashiers required to take annual vacations, and have their responsibilities handled by someone else during their absence?	Green

cc: Richard McIver, Chair, City Council Finance, Budget, Business and Labor Committee
Jean Godden, Chair, City Council Energy and Environmental Policy Committee
Jorge Carrasco, SCL Superintendent
Jim Ritch, SCL Deputy Superintendent, Finance and Administration Branch
Joan Walters, SCL Deputy Superintendent, Customer Service Branch
Carol Everson, SCL Finance Director
Carol Dickinson, Director, SCL Customer Relations/Account Services
Dave Smith, Director, SCL Electrical Services South
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